

5 **TITLE OF THE INVENTION**

NATIONAL HOUSING CREDIT REPOSITORY PROTOCOL

10 This application claims priority from U.S. Provisional Application Serial
No. 60/224,349 filed August 11, 2000. The entirety of that provisional application
is incorporated herein by reference.

15 **BACKGROUND OF THE INVENTION**

 The present invention relates generally to the field of credit reporting and
more particularly to the field of “housing credit” (defined as residential lease and
mortgage) payment processing, data collection, management, and reporting.

 Distinct social and racial disparities associated with other-wise effective
20 automated underwriting credit risk management technology have been observed
since the introduction of this technology, especially in connection with
“traditional” credit data collection and reporting practices. The current housing
credit application process for both residential leases and mortgages often presents a
daunting problem to low and moderate income consumers, first-time homebuyers,
25 and consumers with rehabilitated credit. In order to qualify for housing credit, such
consumers must establish credit-worthiness using “traditional” credit instruments
and payment history collection and reporting practices. However, the “traditional”
methods used to establish credit-worthiness present distinct unfair disadvantages,
especially to fiscally responsible low- and moderate-income consumers who

pay their residential rent or mortgage on time, but who do not have other lines of credit. FICO (Fair, Isaac & Co.) credit scores are automatically calculated by “traditional” credit bureaus for their subscribers using FICO’s proprietary algorithms. These credit scores are in turn used by automated mortgage underwriting and lease application scoring models to establish credit-worthiness and ultimately determine the likelihood of default, and whether the applicant will qualify for the housing credit sought.

One of the problems associated with “traditional” credit reporting methods is that no effort has been made in the market to systematically (i) collect residential rental lease payment data, (ii) assure data quality, (iii) prevent the effective prejudice of consumer’s rights in the data collection process, and (iv) reduce the cost of processing payments. And in many cases, no effort has been made to collect residential mortgage payment data from so-called “subprime” lenders while assuring privacy of the creditor/debtor relationship. The FICO scores generated for low- and moderate- income consumers who do not have “traditional” lines of credit, do not own their own homes, and/or whose mortgages are serviced by a non-reporting mortgage servicer are therefore based solely on “traditional” credit history (which is defined as credit for retail goods and services such as car loans, credit cards, and mortgages) and often do not include “housing” credit history (which is defined as residential lease or mortgage payments and other housing-related payments such as mobile home pad rent, condominium, and cooperative, payments).

“Traditional” consumer credit data collection, management, and reporting practices are a problem in connection with housing credit for three (3) reasons. First, the FICO scores for low and moderate income consumers who make their residential lease payments on time are lower than they should be. Second, FICO scores that are based solely on retail (non-housing) credit information are not as accurate in predicting the likelihood of default on a residential mortgage or lease as a credit score in which housing credit data (if electronically accessible) is assessed and more heavily weighted than the retail credit data. This is because the correlation between an applicant’s past housing credit payment behavior and their future housing credit payment behavior is believed to be a stronger default indicator than the correlation between past “traditional” (retail credit only) payment behavior and future housing credit payment behavior.

Third, a residential lease is a credit transaction that is fundamentally different than other credit transactions including mortgages, and the “traditional” credit data collection method has the distinct potential to prejudice the lessee’s (consumer’s) rights in the event of a lease dispute.

One of the reasons that apartment owners do not provide data to “traditional” credit bureaus is because they risk the liability associated with a lessee (consumer) who claims they received a “black mark” against their credit file in the event of alleged lessor default.

Another reason that apartment owners and subprime mortgage servicers do not provide data is because they risk having their good customers “poached” by competitors who datamine “traditional” credit bureaus for information. Thus,

“traditional” credit data collection, management, and reporting methods present significant disincentives to reporting residential housing payment information to “traditional” credit bureaus. This lack of data makes cost-effective risk-based pricing impractical - especially for low- and moderate-income applicants who need affordable housing credit the most, and where a difference in mortgage interest rate of just one quarter of one percent could mean the difference between becoming a homeowner or not.

Yet another problem with the current system is that there is no check of the accuracy of the residential housing credit information that is reported to “traditional” credit bureaus. This is problematic for two reasons. First, it subjects consumers to potentially unscrupulous and unilateral payment reporting actions of landlords and mortgage servicers. Second, and of greatest concern, a consumer who rightfully withholds rent due to a legitimate residential lease dispute (such as a landlord’s failure to provide heat in the winter, running water, or sanitary plumbing) can receive a “black mark” using “traditional” credit reporting methods, and have their credit damaged for many years because of the rightful withholding of payment. This potential threat effectively prejudices a consumer’s legal rights in a residential lease transaction using “traditional” credit reporting methods.

The National housing Credit Repository (NHCR) Protocol is an equitable and cost-effective system and method that uniquely addresses the aforementioned problems, and mitigates the social and racial disparities associated with automated underwriting technology.

SUMMARY OF THE INVENTION

The present invention provides a system and method for processing payments, resolving disputes, and collecting residential housing credit payment history information. The invention lowers barriers to housing credit that are presented by prior art techniques for low and moderate-income applicants who pay their residential rent or mortgage on time by collecting, managing, and making residential rent, lease and mortgage payment history data electronically available to its subscribers. Subscriber creditors may rely on data collected, managed and made available by the invention to drive their automated scoring, mortgage underwriting and residential lease application scoring models.

In one aspect of the invention, a residential housing creditor creates a lock box at a financial institution such as a bank. The lock box includes an escrow provision under which a consumer can designate payments to be held in escrow under certain pre-defined conditions (e.g., some breach of contract by the landlord, such as failure to provide hot water, or the institution of a suit between the landlord and tenant). A consumer makes payments to the financial institution and designates the payment either for the creditor's lock box or for the escrow account. The financial institution applies non-escrowed funds to the creditor's account and reports all payments (whether escrowed or not) to the apartment owner and to a centralized housing credit data repository. In this manner, the consumer is able to build a positive credit history as timely payments will be reflected in the repository's records. The consumer is also provided with a mechanism for

maintaining a positive credit history in the event of a dispute with the landlord by continuing to make timely payments and designating them for the escrow account.

In another aspect of the invention, all credit data maintained in the residential housing credit data repository is maintained securely and will not be released without the consent of the consumer. This benefits consumers in that it prevents their credit information from being sold without their express consent. This reduces the flow of unwanted junk mail and telephone calls from other lenders. This also protects the creditor as it reduces the flow of information to competitors, thereby reducing the “poaching” problem discussed above.

In another aspect of the invention, the credit data maintained in the repository is used to report a residential housing score in which residential housing credit payment history is more heavily weighted than retail credit payment history. In some embodiments, the residential housing credit payments include mortgage payment information (which may be collected directly from mortgage servicers).

The inducement for mortgage servicers to report mortgage payment information is provided by protecting the confidentiality of the creditor/debtor relationship, and by allowing mortgage services who do report payment information to access the information in a single centralized housing credit repository with the consent of the consumer. For housing credit risk management, this credit information adds considerable value to credit scores from “traditional” credit bureaus because it includes residential housing credit information, which is more predictive of future housing credit payment behavior than the information “traditionally” available from credit bureaus.

Another aspect of the invention provides a security system to protect against unauthorized release of a consumer's credit data from the repository. In preferred embodiments of the invention, each consumer is provided with a magnetic stripe card, a PIN (personal identification number) and a password.

5 Furthermore, member creditors are assigned Subscriber numbers, which are to be maintained in confidence. Member Subscribers are creditors who have registered with the repository and who have legitimate credit risk management needs for the information, e.g., landlords, mortgage lenders, etc. In order for any consumer credit information from the repository to be transferred to any creditor, the
10 consumer must authorize the release of the information to that creditor using the magnetic stripe card, PIN and password, and the creditor's Subscriber number must be presented to the repository.

BRIEF DESCRIPTION OF THE DRAWINGS

15 A more complete appreciation of the invention and many of the attendant advantages and features thereof will be readily obtained as the same becomes better understood by reference to the following detailed description when considered in connection with the accompanying drawings, wherein:

Figure 1 is a system diagram illustrating the interconnection of a residential
20 housing credit management computer with other computers according to one embodiment of the present invention.

Figure 2 is a flowchart illustrating a credit data request process according to an embodiment of the present invention.

Figure 3 is a flow chart illustrating residential housing credit payment processing according to an embodiment of the present invention.

DETAILED DESCRIPTION

5 The present invention will be discussed with reference to preferred embodiments of methods and systems for collecting and distributing residential housing credit payment data. Specific details, such as types of data collected and dispute resolution mechanisms, are set forth in order to provide a thorough understanding of the present invention. The preferred embodiments discussed
10 herein should not be understood to limit the invention. Furthermore, for ease of understanding, certain method steps are delineated as separate steps; however, these steps should not be construed as necessarily distinct nor order dependent in their performance.

 An exemplary system 100 according to the present invention is illustrated
15 in Figure 1. The system 100 includes a repository management computer 120 connected to a repository database 122. The repository database 122 holds residential housing credit payment data. Preferably, the residential housing data includes the following records:

20 A Consumer Personal Information:
 Consumer Name:
 First
 Last
 Middle Initial
 Maiden
25 Consumer Date of Birth (mm/dd/yy)
 Consumer bioprint (signature, retina, finger, etc.)
 Consumer Address:

5 Number
 Street Name
 Unit Number
 Building Name
 City
 Country
 State
 Zip Code
 10 Consumer Address "As of" Date (mm/dd/yy)
 Consumer Repository Account Number
 Consumer PIN
 Consumer Password (e.g., mother's maiden name)
 Number of months as repository member
 Number of consecutive on-time full payments
 15 Number of escrow deposits
 Number of Court Filings (w/ruling)
 Delinquency frequency last 12/24 months:
 30 days; 60 days; 90 days; 120 days
 Average payment date 0-90 for 12 months/24 months/overall

B Consumer Loan Information:

Housing Creditor Type (mortgage loan, home equity loan; apartment lease,
 mobile home pad, condominium, cooperative, etc.)
 25 Required Payment Amount
 Required Payment Frequency
 Credit Term
 Required Payment Due DateCreditor Name
 Loan ID number
 Creditor Account Number (to which to credit payments)
 30 Original Term
 Remaining Term
 Renewal Dates
 Extension Dates
 Modification Terms and Dates
 35 Security Deposit Amounts

C Payment Information:

Date on which payment was received
 Time at which payment was received
 40 Amount of payment received
 Creditor Name
 Loan ID Number:
 Difference (in dollars) between required and actual payment
 Difference (percent) between required and actual payment
 45 Difference in days between date payment was made and due date

D Creditor Information

Creditor Name

Creditor EIN

5 Creditor Address:

Number

Street Name

Unit Number

Building Name

10 City

Country

State

Zip Code

Creditor Servicing Contact Name (if different):

15 Contact Phone Number

Contact email address

Creditor assigned Consumer Account Number(s)

Creditor Repository Data Reporting ID Number

Creditor Repository Data Subscriber ID Number

20 Creditor Repository Data Reporting Trustee Name (i.e., bank lock box
service provider)

Creditor Repository Data Reporting Trustee ID Number

Creditor Repository Data Reporting:

Contact Name

25 Contact Phone Number

Mailing Address

E-mail Address

Contact Password

30

The repository management computer 120 acts as a gatekeeper to ensure that any information entering the repository database 122 is valid and, more importantly, that only properly authorized consumer credit information enters and leaves the repository database 122.

35 The repository management computer 120 is connected to a secure communications network 110. The communications network 110 may be any form of secure communications network, and preferably comprises the Internet. Those of skill in the art will recognize that many possible forms of secure

communications networks are possible. These different forms will not be discussed in further detail herein to avoid obscuring the present invention. Also connected to the communications network 110 are a plurality of creditor computers 130, financial institution computers 140, and user terminals 150. Creditor computers 130 provide a means by which creditors can make requests for credit payment information from the repository management computer 120. Financial institution computers 140 report payments to the repository management computer 120. User terminals 150 allow users to authorize release of their credit data to residential housing credit providers and allow consumers to obtain copies of their records from the repository. It should be understood that a single computer or computer system can perform one or more of the functions of the devices shown in Figure 1. For example, the repository management computer 120 and the repository database 122 may both be present in a single computer or computer system. Similarly, the functions of the creditor computers 130 and user terminals 150 may be combined in a single computer or system as described below.

The processing that occurs at the repository management computer 120 when a consumer applies for housing credit (e.g., a mortgage or a lease) is illustrated in the flowchart 200 of Figure 2. The repository management computer 120 receives a request for credit data at step 210. The repository management computer 120 verifies the request at step 220. In some embodiments, the verification procedure includes some or all of the following checks: the Creditor Repository Data Subscriber ID Number must match the number maintained in the database 122; the Creditor Repository Data Reporting Contact Name associated

with the request must match the Creditor Repository Data Reporting Contact Name in the database 122; and a password provided with the request must match the Creditor Repository Data Reporting Contact Password in the database 122. If the verification process fails, a notice of the unauthorized attempt is sent to the consumer whose credit was requested at step 230 and the process ends. The notification may be viewed in real time using the internet, or by telephone, email, regular mail, or any other means.

If the verification process is successful, authorization is requested from the consumer at step 240. The request may be processed in real time using the internet, come by telephone, mail, email, or any other means. Additionally, in some embodiments, it is possible for a consumer to pre-authorize the release of credit data. One important aspect of the invention is the security of the data. As discussed above, in preferred embodiments of the invention, consumers are provided with magnetic stripe cards which to be used during the authorization process. In addition to the cards, some embodiments require either a PIN number, a password, or both to be provided in order to successfully authorize the release of the consumer's credit data. Other identification techniques (e.g., digital signature recognition, retinal or finger scan) may be employed in alternative embodiments.

It should be noted that it is also possible for a credit provider to obtain the consumer's authorization and submit the authorization along with the creditor request. One way in which this might be done is for creditors to provide computers equipped with card readers at their locations. When a consumer applies for residential housing credit, the consumer swipes his or her magnetic stripe card at

the creditor location and enters the PIN and/or password without revealing it to the creditor, much in the way a debit card transaction is processed in retail establishments.

If the release of the data has been not authorized at step 250, a notice is sent
5 to the creditor at step 260. If the release of the data has been authorized at step
260, the data is reported to the creditor at step 270. The report is preferably sent
electronically, but may be sent by other means including fax and mail. The
housing credit provider then uses this information in determining whether or not to
extend credit to the consumer, and/or how to price the credit. It should be
10 understood that references to reporting the data to a creditor includes reporting the
data to an application processor designated by the creditor rather than to the
creditor itself.

If the consumer's application is accepted, the creditor creates an account for
the consumer to use with the creditor's lock box at the creditor's bank or other
15 financial institution of the creditor's choice. The consumer then begins sending
funds to the creditor's lock box. These funds can include application fees, points,
and monthly mortgage payments in the case of a mortgage, and lease payments and
security deposits in the case of a lease.

The processing performed by the bank/financial institution computer 140 is
20 illustrated in the flowchart 300 of Figure 3. When making a payment, the
consumer's identification information is input at step 310. The identification
information may be input by swiping a striped card in a card reader, by entering an
account number, or other means. The emphasis in this step is properly identifying

the consumer so that the payment made by the consumer is sent to the correct creditor and so that the consumer gets the proper credit for making the payment. Accordingly, in some embodiments, entry of a password or PIN is not required at this step. If the identification of the consumer is not verified at step 320, the
5 consumer is notified at step 330 and the process ends.

If the identification of the consumer is verified at step 320, the consumer is given the option of designating the payment as a disputed sum and directing the bank to hold the payment in escrow at step 340. This could occur, for example, in a case where a tenant wishes to withhold a lease payment from a landlord because
10 the landlord has failed to provide heat to the apartment. Without the present invention, consumer's rights are effectively prejudiced in a residential lease transaction because a consumer in this situation faces the unenviable choice of making the lease payment to the landlord (thereby losing "leverage" with the landlord to make the repair) or withholding the payment at the risk of receiving a
15 "black mark" in their credit file and potential long term damage to their credit history. By allowing the funds to be directed toward the escrow account, the consumer gets the benefit of showing a timely payment while maintaining the leverage that may be needed to obtain compliance with the lease terms by the lessor. In preferred embodiments of the invention, the conditions under which
20 payments may be designated for escrow and the conditions under which the payments will be released to the creditor or the consumer will be set forth in a written tri-party escrow agreement between the lessor, lessee, and the trust department of the lessor's financial institution.

Payments that are not designated for escrow at step 350 are immediately credited to the creditor's designated account at step 360. Payments that are designated for escrow by the consumer will be stored in the escrow account at step 370 and a notification will be sent to the repository and to the creditor at step 372.

5 The funds will be held by the bank until the escrow agent is directed to release consumer the funds in accordance with a ruling by a landlord/tenant court, or by a mutually accepted arbitrator, or on some other event agreed upon by the parties. One example of such an event is an adjudication of the dispute by a court of competent jurisdiction. In some preferred embodiments, the consumer is
10 provided with a special code by the bank upon directing a payment to escrow; when the dispute has been resolved (e.g., heat is restored) and the consumer wishes to release the funds to the creditor, the consumer can call a voice automated telephone system maintained by the bank and enter the special code, at which point the bank will release the funds to the creditor. The release event may also
15 comprise an arbitration of the dispute by an entity associated with the repository or some other organization. If the release event (adjudication, arbitration, release by consumer, or other agreed-upon event) indicates that the funds should be released to the creditor at step 374, the payment is credited to the creditor's account at step 360; otherwise, the consumer's account is credited at step 376.

20 In either event, the bank will also generate a payment report and send the report to the creditor and to the repository management computer 120 at step 380. The payment reporting to the creditor and to the repository includes adjudication or arbitration results in the event payments are escrowed, and the repository tracks the

number of times payments are escrowed by the consumer, and what the resolution results are. To the extent that consumers abuse the escrow feature of the NHCR, this information will also be available to future potential creditors.

The bank may charge a fee for its collection and accounting services in some embodiments. This fee provides incentive for the banks to participate in the payment and reporting process. However, this fee will almost certainly be less than the cost that would be incurred by the creditor. In a sense, the payment collection and accounting services have been outsourced to the bank. In other embodiments, reduced fees will be charged by the banks. In such embodiments, the incentive for the banks comes from the opportunity to attract potential customers that results from consumers being present at the bank when making housing payments. Additional incentive for the bank or other financial institution arises in connection with the Community Reinvestment Act (CRA). In a written opinion expressed by the Federal Reserve Board of Governors, Division of Consumer and Community Affairs, banks can receive favorable “community development service” consideration when they use their lock box payment processing and information reporting technology to assist low and moderate income apartment renters to build accurate credit histories.

In some embodiments, a consumer can make a payment using an ATM (automated teller machine) in the same manner in which such machines are used to make deposits. The ATM in such embodiments accepts the same magnetic stripe card used by the consumer to authorize the release of credit data. The consumer places the funds in an envelope and inserts the envelope into the machine in the

same manner as a deposit is made. The ATM display includes an option to designate the payment for escrow. The appropriate account (creditor or escrow) is then credited and notification of the payment is sent to the repository management computer 120 for storage in the database 122. In preferred embodiments, the
5 ATM, or the financial institution's bank by phone or internet system can alternatively be used to electronically transfer funds from the consumer's account to the creditor's account at greatly reduced processing cost.

In some embodiments, a consumer can make a payment using a financial institution's grocery store kiosk, or on-site coin-less payment centers at larger
10 apartment communities.

The repository management computer 120 uses the bank report to maintain the payment history information for the consumer in the database 122. In addition to the information from the bank, some embodiments of the invention will also collect data from other sources such as real estate taxing authorities, utilities
15 providers, telephone service providers, cable providers, and internet service providers - provided that the internal controls of the reporting entity have been reviewed by an independent certified public accounting firm as being adequate to ensure the quality of the data and ensure the privacy to the consumer in accordance with predetermined standards for data reporting.

20 The consumer can obtain this information from the repository upon request. This allows the consumer to verify that the information is correct. This payment information will be added to existing payment information for use when the consumer next makes an application for housing credit.

Obviously, numerous other modifications and variations of the present invention are possible in light of the above teachings. It is therefore to be understood that within the scope of the appended claims, the invention may be practiced otherwise than as specifically described herein.